MAKING A SPLASH

POLYAIR INTER PACK INC.

2003 ANNUAL REPORT

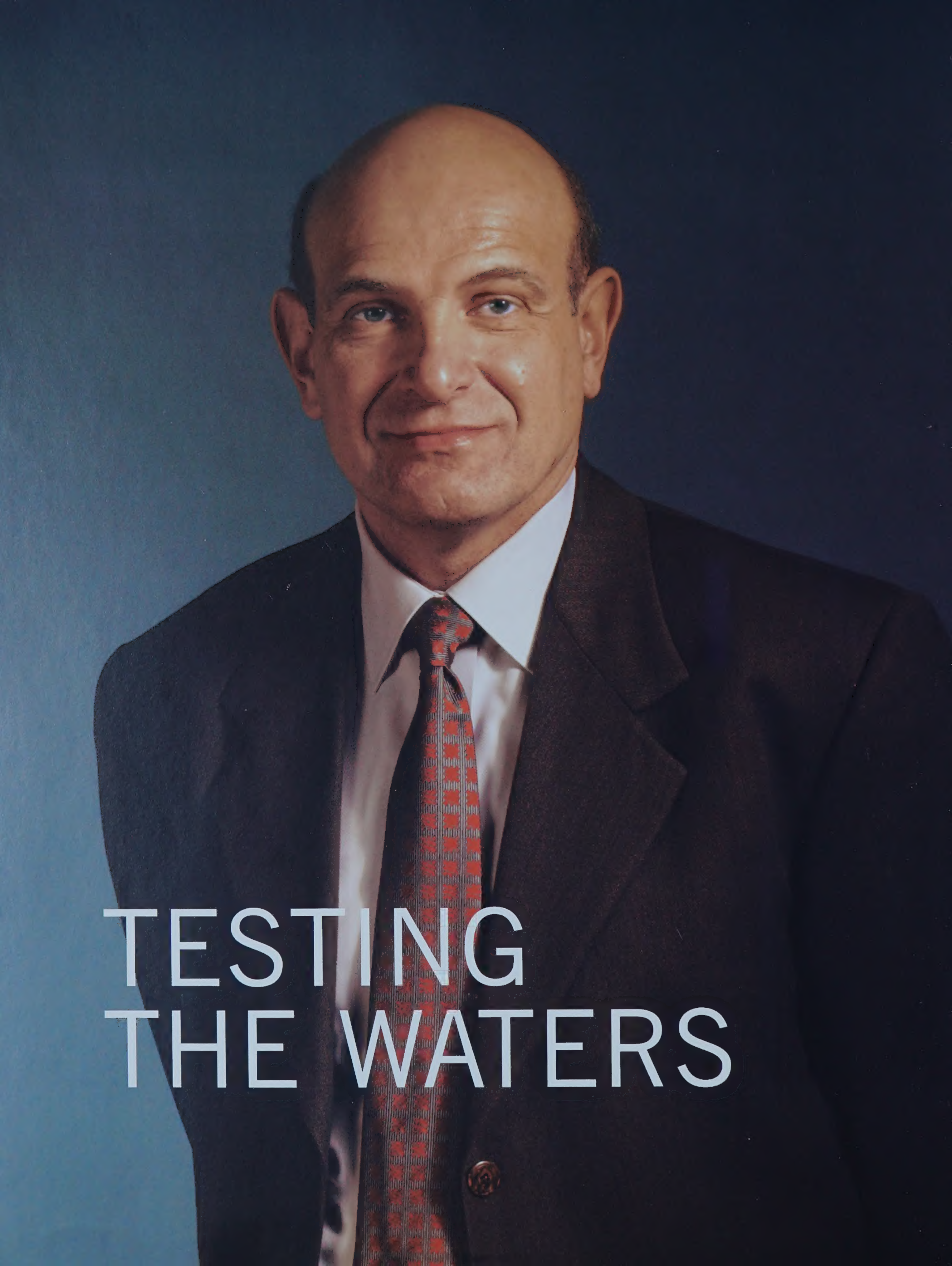
Polyair Inter Pack Inc. manufactures protective packaging and swimming pool accessory products, which are sold through a select network of some 3,000 distributors across North America. Headquartered in Toronto, Ontario, Polyair operates 11 manufacturing facilities, seven of which are based in the United States, where the Company generates approximately 79% of its annual sales. The shares are listed on both the Toronto Stock Exchange and the American Stock Exchange under the symbol "PPK."

TABLE OF CONTENTS

Financial Highlights

($ in millions of U.S. dollars)

1 CALCULATED AS OPERATING PROFIT PLUS DEPRECIATION AND AMORTIZATION.



TESTING THE WATERS

President's Message

Polyair continues to be a success story, one that has been unfolding for 36 years. I am pleased to report that this past year was monumental for our company. We completed the largest acquisition in our company's history, establishing a base for stable and substantial earnings in our Pool Division for the next few years.

On the heels of a difficult year in 2002, Polyair's 2003 revenues grew by almost 20%. Our Packaging and Pool businesses continued to thrive and gain strength due to our long-standing commitment to our customers, who have come to expect new, innovative products to meet the ever-changing demands of the marketplace.

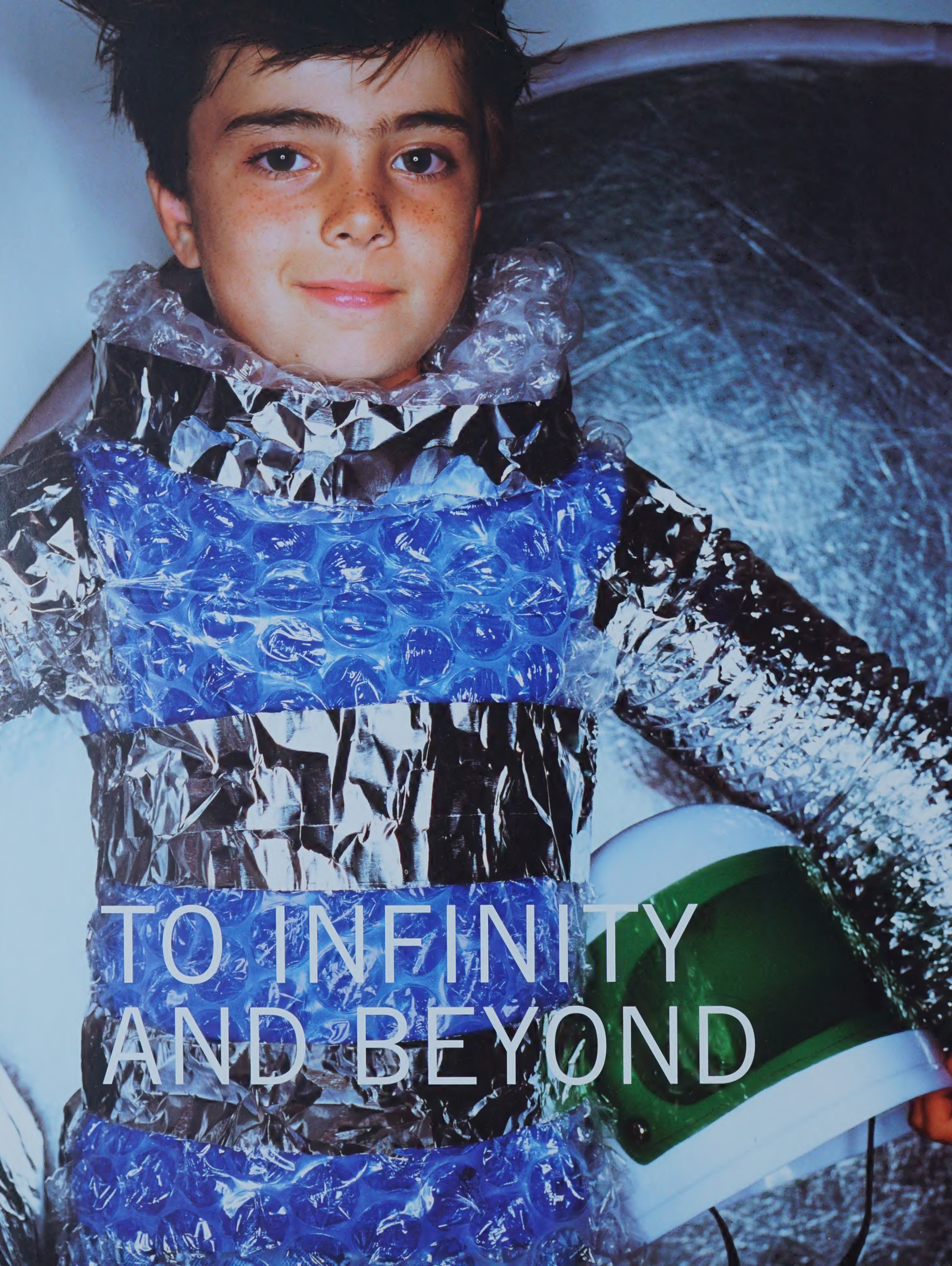
Our acquisition of the assets of Jacuzzi and Atlantic to manufacture above-ground swimming pools, pumps and filters necessitated an increase in our industrial capacity. In addition to our 11 current plants, we leased a new 310,000 sq. ft. facility in Toronto to service the acquired product lines, and we added approximately 300 employees to our payroll on a seasonal basis. An acquisition of this magnitude, including over $40 million of assets, requires an enormous degree of support and cooperation from key individuals in order to ensure a successful integration. Although the merging of the Atlantic/Jacuzzi/Cantar businesses will take a number of months to complete, the end result will be a division with superior talent and exciting, innovative product lines, with assured growth capabilities.

The Packaging sector expanded by 5% in 2003 as a result of the efforts of our Sales and Marketing Group, whose mandate is to increase the company's presence in key areas and to provide innovative, new products that will attract and encourage customer loyalty and thus ensure repeat business. The development of an e-business network is ongoing, along with increasing our presence in the retail sectors, because we believe that these areas are still in their infancy stage for us. Our customer service commitment is to provide efficient, personalized service that will solidify our company's reputation and, we believe, result in increased sales.

This past year marks the completion of the installation of our PXL facility, which introduced cross-linked foam technology to Polyair. This is an exciting area of expansion as this type of technology is an excellent example of the kind of business we hope to add in the future. Our unremitting efforts to develop new market niches are vital, as Polyair's goal is to continue our pattern of growth. We seek to maintain our leading edge by further organic expansion, new product introductions, expanded market base, and the pursuit of strategic acquisitions.

Since 1968, our company has grown substantially in volume, attracted talented individuals who have enabled our labour force to grow and, most importantly, earned substantial profits. This year, it was our good fortune to add a dedicated group of Atlantic/Jacuzzi employees to our workforce who will enrich our company's future and provide opportunities for successful growth. Together with the Executives, Directors, Officers and employees of Polyair, I look forward to 2004 with tremendous confidence, as I believe we have laid the foundation in 2003 for an extremely productive and exciting year.

Henry Schnurbach
President and Chief Executive Officer


TO INFINITY
AND BEYOND

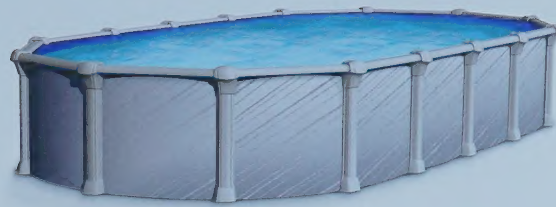
We have never been more excited about the opportunities in the protective packaging marketplace. We have never been closer to our customers. We will continue to aggressively develop advanced protective packaging products and solutions that will further enrich our business relationships with our existing customers.

Over the last two years, the Polyair Packaging Group has concentrated on delivering solutions to the e-business and retail networks. We have expanded our business and provided shipping solutions to companies such as Amazon, Best Buy, Canada Post, Staples and many others. We have developed numerous products for sectors including automotive, home construction, furniture and many others to ensure both our company's growth and that of our customers.

Because we meet regularly with our customers and understand the market, our Sales and Marketing teams know our customer base. With the joint efforts of Sales, Marketing, Engineering and Manufacturing, we should continue the history of growth that we have been accustomed to over the last 17 years.

Our goal is to continue building on our past successes. We are constantly developing new products, as the packaging arena is wide open and offers many opportunities for Polyair.


PUMPED
UP



The recent acquisition of the Jacuzzi and Atlantic assets enables the Cantar Pool Division to expand its horizons and compete in a billion dollar sector of the swimming pool industry. By broadening our offering and focusing on customer wants and needs, we are exceptionally well positioned to succeed in our endeavor to grow.

The Cantar Pool Division was founded in 1968, when we began manufacturing winter covers at a single plant in Toronto. We continued as a single line cover manufacturer until the late 1970's, when we caught the wave of new bubble solar blankets developed to retain heat in swimming pools. The solar blankets and winter covers provided us with the platform to add numerous related accessory product lines over the ensuing years, including solar reel systems, safety covers, safety fencing, automatic covers and vinyl liners. Through organic growth, coupled with the recent acquisition which adds Atlantic above-ground pools and Jacuzzi swimming pool pumps, filters, electronic controls and pool lighting to our product line, our Pool Division revenues should more than double.

The combined Cantar/Atlantic/Jacuzzi business will focus on utilizing a seasoned executive, sales, and marketing staff, who should together ensure that our business becomes an even more integral part of our customer's future operations. We are confident that our leadership is second to none.


UNDERNEATH
IT ALL

Growth comes in many forms. Polyair has strategically planned successful openings of new facilities and the development of leading-edge products, explored new markets and expanded through acquisition. Our company's future is bright due to our vision of growth.

Last year Polyair expanded primarily by acquisition. The Atlantic/Jacuzzi purchase placed us directly into the pool equipment marketplace and provided us with new avenues of distribution throughout North America, Europe and South America. Dealing with the size and scope of this 2003 acquisition was in itself an education. This experience proved to us that our company is capable of undertaking major growth, including the successful integration of facilities and new employees. With our expertise in the acquisition process, along with our prior experience in product development, plant expansion, equipment development and joint venture activities, we have laid a solid foundation for success. Our entire management team is united in building shareholder value by growing each of our business units.

Polyair Packaging Products Profile

Automotive, pharmaceutical, online retail/fulfillment, office supplies, furniture and insulation – these are just a few of the major industries that benefit from our protective packaging and insulative products.

Bubble

Durabubble's unique structure provides outstanding cushioning to protect your package.

Durabubble is available in a host of sizes and formats to meet virtually every packaging need.

Available in:

Standard and Retail Durabubble Bundles in Clear and Anti-Static Rolls

Freight Friendly Bubble Rolls minimize shipping costs – perfect for online retailers

Box-A-Bubble® and Handi-Pak dispensers

Duramask™ adhesive and Durabond™ cohesive bubble to save cost and labour by eliminating the need to overlap and tape

Durakraft and DuraMover bubble products for Moving and Storage

E-Z Seal Pouches in individual bags or on a roll save time and material cost

Endurabubble™ tri-web bubble provides outstanding cushioning, leaves no dimple marks, and is great for furniture

Mailers

Our Mailers combine excellent cushioning with a variety of rugged exteriors and tough seams and closures to keep your product safe and intact. Each mailer can be custom printed to suit any promotional or advertising need. Our Ecolite mailer is made from a tough paper exterior and provides superb cushioning and protection. Our fully recyclable eCom Mailer™ with its polyethylene shell and hot melt adhesive provides the ultimate protection and security for your package. Our Fastpak polyethylene courier mailers provides superior puncture and tear resistance and are the ideal cost saving solution for items that do not require cushioning. All our mailers are lightweight and provide low-cost shipping protection for a wide variety of products.

Available in:

Ecolite® golden kraft bubble mailer

eCom® white polyethylene bubble mailer

Fastpak® polyethylene courier mailer

Decolite decorative bubble mailer

Foam

The superior strength of Starfoam® is the result of the advanced technology of its cell structure, which makes the product resistant to punctures and tears. This makes Starfoam the perfect solution for surface protection and cushioning. For extra protection and durability our large number of unique foam laminates are an excellent option.

Available in:

Large Standard and Anti-Static Rolls

Pouches and Sheets to save time and material

Starmask™ adhesive and Starbond™ cohesive

Lamifoam® poly-laminate for extra strength

Lamifilm® bags – easy to use – ideal for furniture and large electronics

Starnet® woven laminate where toughness and tear resistance are key

Starmover® ventilated laminate for protection from abrasion and condensation

Systems

Our AirSpace® Inflatable Pillow Packaging System provides clean and environmentally friendly on-demand air pillows for cushioning and void-filling. Our TotalFoam® foam-in-place system provides expanding polyurethane foam for blocking, bracing and void-filling for products of unusual shape or that require superior cushioning and protection. Our Kangaroo pouch machine is ideal for on demand manufacture of pouches from a variety of materials.

Available in:

AirSpace® unit and accessories

TotalFoam™ unit and accessories

Kangaroo unit and accessories

Insulation

Flexfoil® and Flexotherm® are uniquely designed products for the construction industry and are also now finding uses within OEM markets where they help extend shipping cycles of temperature sensitive products. Both products have an aluminum outer surface, which reflects up to 97% of radiant heat back to its source.

Available in:

Flexfoil®

Flexotherm®

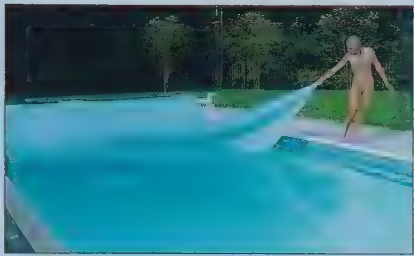
Cross-Linked Foam

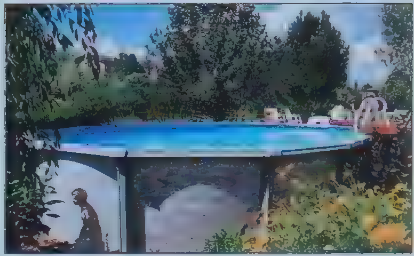
The versatility of our cross-linked closed cell polyethylene foam bun stock is ideal for innovative solutions in the construction, packaging, automotive and consumer products markets.

Expanded Polystyrene

Our advanced processing equipment at our polystyrene foam molding facility allows us to manufacture a wide range of products for use in packaging consumer products, automotive components and insulated concrete forms.

Pool Products Profile





Cantar

Established in 1968, our product line has grown to include an exciting array of first-quality swimming pool products.

Aqua Cover® Solar Blankets
Bubble blanket floats on swimming pool to conserve heat and energy.

Aqua Cover® Solar Blanket Reel Systems
Enables one person to manually remove solar blanket from pool. Increases solar blanket life.

Aqua Foam®
Lines the inside walls of a swimming pool before a vinyl liner is installed.

Molly Brown® Floatation Cushions
Unsinkable float filled with 20,000 individual air cells. 100-year no-sink warranty.

Aqua Cover® Leaf Nets
Open mesh cover keeps leaves and debris out of the pool in spring and fall.

Aqua Cover® Winter Covers
Triple polyethylene laminate covers for winter pool protection.

Aqua Cover® Water Tubes
Vinyl tubes filled with water to hold down winter covers.

Aqua Liner® Vinyl Liners
PVC vinyl lining, available in many attractive patterns, installed in pool to hold water.

Secur-A-Pool® Safety Cover Systems
Visually appealing mesh pool cover consisting of strap and spring suspension system which supports sufficient weight to protect pool from accidental intrusion.

Secur&Clean® Solid Pool Protection Systems
Similar to above, features a non-porous fabric. Keeps pool cleaner, while still providing protection.

Protect-A-Pool Above Ground Fencing
Resin above-ground fencing with optional gate. Fits all sizes and styles of above-ground pools.

Protect-A-Pool In-Ground Removable Safety Fence
Removes and installs in minutes and is ideally suited for any environment. The fence has a climb-resistant surface and exceeds OSHA test standards.

Glow Buoy
The easy, affordable alternative to installed pool lighting.

Secur-A-Matic® Automatic Safety Cover
One touch of a button rolls this premium electronic safety cover on or off the pool.

Jacuzzi*

"When you buy Jacuzzi, you buy experience." Today, we are fully committed to providing a superior level of pump and filter technology that draws on the many decades of proven success of the Jacuzzi brand.

Magnum Force®
Pool pump for residential in-ground pools featuring patented air-cooled heat sink.

Magnum Force®
Pump for large residential and commercial use.

Cygnet II®
Residential pool pump featuring high efficiency diffuser.

**Registered Trade Mark of Jacuzzi Brands Inc.*

SandStorm®
Sand filters for residential and commercial use with patented UniFlo underdrain.

Sherlok®
Element filter with coreless design for easy cleaning and excellent filtration.

Tri-Clops Element Filter®
Three uniquely shaped patented elements offer more efficient filtration.

Avalanche D.E. Filter®
Patented wiper plate allows user to regenerate D.E. without disassembling the filter.

EarthWorks D.E. Filter®
D.E. filter for large residential and commercial use.

MasterMind®
Remote control automated system operates pump and filter, pool lighting, heater, automatic cleaner and more.

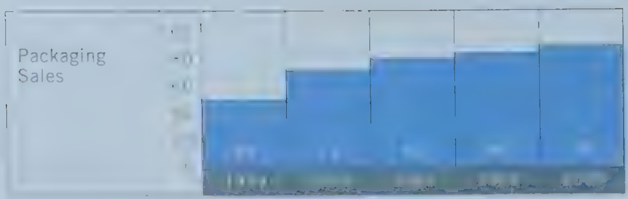
FullMoon®
Swimming pool lights for in-ground pools.

Atlantic Pools

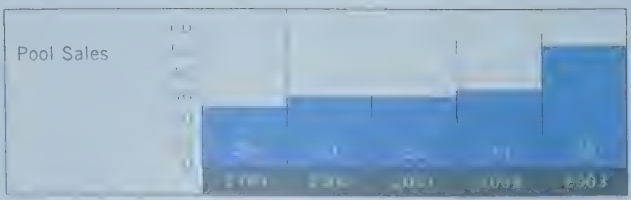
Atlantic Pools is the world's largest manufacturer of above-ground family pools. Our commitment to innovation, quality and, above all else, customer satisfaction, has earned us a worldwide reputation for outstanding value and unwavering reliability.

Atlantic Pools offers a wide range of models and sizes to choose from. We have the pool to fit any budget and to help create the perfect escape in any backyard setting.

11 MANUFACTURING PLANTS



(IN MILLIONS OF U.S. DOLLARS)



(IN MILLIONS OF U.S. DOLLARS)

FIVE YEAR FINANCIAL SUMMARY

Years ended October 31	**2003**	2002	2001	2000	1999
(IN THOUSANDS OF U.S. DOLLARS)	$	$	$	$	$
Operating results					
Sales	**142,776**	119,510	111,624	104,964	83,431
EBITDA (Calculated as operating profit plus depreciation and amortization.)	**15,235**	15,269	11,205	11,319	7,710
Operating profit	**9,310**	9,274	5,671	7,284	5,131
Net income	**4,730**	4,449	1,665	3,126	2,365
Cash provided by (used in) operations	**31,120**	16,827	6,710	1,165	8,163

As at October 31	**2003**	2002	2001	2000	1999
(IN THOUSANDS OF U.S. DOLLARS)	$	$	$	$	$
Balance sheet data					
Working capital	**14,335**	10,416	(3,871)	6,052	6,892
Total assets	**100,608**	67,411	68,613	68,529	52,214
Total debt (see below)	**32,669**	21,910	30,660	30,854	19,714
Additions to plant and equipment	**8,946**	5,218	5,296	12,491	6,830

As at October 31	**2003**	2002	2001	2000	1999
(IN THOUSANDS OF U.S. DOLLARS)	$	$	$	$	$
Total debt					
Bank Indebtedness	**13,130**	–	9,710	7,131	1,256
Current portion of long-term debt	**4,191**	3,064	11,589	3,438	2,734
Long-term portion	**15,348**	18,846	9,361	20,285	15,724
Total debt	**32,669**	21,910	30,660	30,854	19,714

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Quarterly Financial Results

	2003				2002			
FOR THE QUARTERS ENDING	JAN 31	APR 30	JULY 31	OCT 31	JAN 31	APR 30	JULY 31	OCT 31
Net sales	24,538	31,569	49,069	37,600	23,751	29,647	31,871	34,241
Net income	147	1,243	1,827	1,513	70	1,129	1,400	1,850
Per share basic	0.02	0.20	0.30	0.24	0.01	0.18	0.23	0.30
Per share fully diluted	0.02	0.20	0.28	0.22	0.01	0.18	0.22	0.29

(IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS)

For the year ended October 31, 2003, compared to the fiscal year ended October 31, 2002

The company's net sales increased 19.5% to $142.8 million in the year ending 2003 compared to similar periods in fiscal 2002. The increase in net sales is a result of organic growth in the packaging segment and the Atlantic/Jacuzzi asset purchase in the pool segment which contributed $18.8 million of sales. Sales of packaging products increased 4.9% to $89.5 million from $85.3 million in the comparable 2002 period. Increased sales volume of products through the retail network and e-business continued to be the major contributors to the increase in packaging sales. Sales of pool products increased 55.7% to $53.2 million from $34.2 million in the comparable 2002 period. Sales increased due to the addition of the above-ground pools and the pump & filter product lines acquired in the Atlantic/Jacuzzi asset purchase.

Gross profit for the year increased 15.5% to $32.7 million from $28.4 million in the comparable 2002 period. As a percentage of sales, gross margin decreased to 22.9% compared to 23.7% for the same period in 2002. The decrease was due to an increase in petro-chemical based raw materials and the lower gross margin on the Atlantic/Jacuzzi sales, as the company absorbed costs related to the acquisition and integration of the these product lines. The company contracted to have product manufactured by the vendor in order to ensure supply through the post acquisition period. The Atlantic/Jacuzzi operations were moved into the new 310,000 ft. facility in Toronto, which is operational and dedicated to the pool equipment and swimming pool product lines. Approximately one million dollars of cost incurred this last quarter will not be recurring in future years. Gross margin before the non-recurring costs would have been 23.6% for the full year.

Selling and administrative expenses increased by 22.8% to $23.4 million from $19.1 million in the comparable 2002 period. As a percentage of sales, selling and administrative expenses increased to 16.4% from 16.0% during the same period in 2002. The increase is due to the incremental costs of the acquired business and the seasonality of the pool segment sales.

Net interest expense for the year decreased to $1.6 million from $1.7 million in the comparable period of 2002 due to reduced average borrowings during the year and a lower average interest rates.

For the year ended October 31, 2002, compared to the fiscal year ended October 31, 2001

The Company's net sales for the period ending October 31, 2002, of $119.5 million increased by 7% or $7.9 million over the comparable period in 2001. The increase in net sales reflects increased unit volumes for certain products, partially offset by changes in product mix and lower average selling prices for certain products.

Sales of packaging products increased 6% to $85.3 million from $80.4 million in the comparable 2001 period. Sales of products for use in the logistic and fulfillment market continued to contribute significantly to the increase in packaging sales partially offset by lower average selling prices for certain products.

Sales of pool products increased 9% to $34.2 million from $31.3 million in the comparable 2001 period. Sales increased due to higher unit volumes in the majority of the product lines.

Gross profit for the year increased 21% to $28.4 million from $23.5 million in the comparable 2001 period. As a percentage of sales, gross profit for the year, increased to 24% compared to 21% in the comparable period of 2001. This increase was due to lower material costs, favorable product mix and higher overhead absorption due to increased volumes.

Selling and general administrative expenses increased by 7% from the comparable period in 2001. As a percentage of sales, selling and administrative expenses increased by 0.1% during the year over the comparable period in 2001. The variance was due to higher compensation costs over the prior year.

Operating profit increased by $3.6 million to $9.3 million for the year compared to $5.7 million for the comparable period in 2001. As a percentage of sales, operating profit for the year increased to 8% compared to 5% in the comparable period of 2001. This increase was due to improved manufacturing efficiencies, favorable product mix and higher overhead absorption due to increased sales volumes.

Net interest expense decreased by 35% to $1.7 million for the year compared to $2.6 million in the comparable period of 2001, due to lower average borrowings and lower interest rates.

Liquidity and Capital Resources

The company's principal sources of liquidity are cash on hand, unused borrowing capacity under existing lines of credit and cash flow from operations.

On May 8th, 2003, the Company acquired certain assets from Jacuzzi Inc. and Jacuzzi Leisure Products Ltd. at a purchase cost of $40.2 million. The results of operation have been consolidated from the date of acquisition. The purchase price cost was allocated to the fair value of the net assets. The final purchase cost was financed through cash and the issuance of a $5.0 million six-year 6% note to the seller, convertible into 598,802 shares of PPK's stock at a price per share of $8.35 US.The note is convertible at the option of holder any time after March 31st, 2004. The note can be settled, at the option of the Company, after March 31, 2006 through payment of cash or insurance 598,802 fully paid and non-assessable Series A preference shares. The effect of the conversion on earnings per share as at October 31, 2003, based on weighted average shares (diluted) of 7,052,477, would result in a decrease of $0.06 per share.

Working Capital as at October 31, 2003 increased by $3.9 million to $14.3 compared to $10.4 million in the prior year. The acquisition of the Atlantic/Jacuzzi assets and product lines had a significant impact on the year-end balance sheet as at October 31, 2003. Total Accounts Receivable increased by $8.2 million from the prior year with $7.2 million related to the acquired business. Total Inventory increased by $19.2 million from the prior year with $13.3 million related to the acquired business. The remaining increase is due to a carry over of pool product finished goods, as sales were below expectations in the fall season, increase in the cost of resin and a corporate decision to increase inventory levels to service expected customers demand. Accounts payable and accrued liabilities increased by $10.5 million over the prior year with $7.9 million related to the acquired business.

The company's total debt, net of cash and short-term investments and the convertible note, increased by $12.9 million as at the end of fiscal 2003 to $31.8 million compared to $18.9 million at the prior year-end. The increase is due to the $13.1 million increase in the bank indebtedness required to finance the working capital demands related to the acquired business, higher inventory levels as noted above and the start up of PXL Cross Linked Foam Corp., the joint venture that began production this past May. The purchase of new equipment for $8.9 million and the acquisition of the Atlantic/Jacuzzi assets were mainly financed through cash generated from operations.

In May 2003, the borrowing facility was amended in order to finance the post acquisition operations. The amended facility provides a flexible operating line of credit to meet the seasonal working capital requirements up to a maximum of $60.0 million with availability determined monthly based on eligible accounts receivable, inventory less amounts reserved for letters of credit to support IRB commitments and other banking reserves in the normal course. Based on October 31, 2003 balances, the available line of credit is $25.8 million with $13.1 million drawn on the line of credit. The unused available working capital line of credit is approximately $7.0 million. The line of credit is subject to an unused credit facility fee of 0.375% per annum on the undrawn balance. The Company has capital equipment term loans of $11.7 million outstanding (2002 – $13.0 million) at October 31, 2003.

A summary of the Company's long term debt and operating lease obligations for the next five years and thereafter.

	EXPECTED MATURITY DATE						
	2004	2005	2006	2007	2008	THEREAFTER	TOTAL
Long Term Debt							
Fixed Rate (USD)	1,588	2,470	343	164	–	–	4,565
Variable Rate (USD)	2,194	2,225	2,032	1,478	733	4,008	12,670
Variable Rate (CAD)	409	419	429	438	410	199	2,304
Lease Commitments	2,955	2,958	2,156	1,350	1,124	5,914	16,457

(IN THOUSANDS OF U.S. DOLLARS)

During the year Polyair has purchased a total of 120,000 shares of stock under its Normal Course Issuer Bid, which expired in November 2003. Average price of stock purchased was at a cost of USD $5.35.

Risk and Uncertainties

The Company's sales revenues are generated primarily in the United States in U.S. dollars. The Canadian dollar is the functional currency of the Company's Canadian operations. Income statement results are translated using the average rate of exchange for the year and all assets and liabilities are translated at the year-end exchange rate.

The Company purchases goods and services in both functional currencies. To reduce exposure to exchange rate fluctuations, the Company may hedge its currency risk based on management's view of currency trends, estimate of currency requirements and consultation with the Company's financial advisors. The Company periodically uses derivative financial instruments, including swaps, forward contracts and options, to manage these foreign currency exposures. At October 31, 2003, the Company had no outstanding commitments.

Demand and pricing for certain of the Company's protective packaging and pool accessory products are cyclical in nature and are subject to general economic conditions that affect the market demand. Adverse spring weather may affect pool product sales volumes. The Company seeks to manage these risks by product line diversification and with new product introductions and innovations.

The Company is subject to a wide range of environmental laws and regulations in Canada and the United States pertaining to the discharge of materials into the environment, the handling and disposition of wastes and otherwise relating to protection of the environment. During the year the Company purchased the pool and pool product assets from Jacuzzi Inc. and Jacuzzi Leisure Products Ltd. Included in these assets was a property in Toronto with an environmental ground water deficiency, that is not a health hazard, requiring remedial action. The Company has developed a remediation plan and has allocated the required funds necessary to remediate the property. Management has reserved for the costs to remediate the property and believes that they are not material and therefore should not impact future operating results. Although all other facilities are in compliance with regulatory standards, there can be no assurance that changes in environmental laws and regulations, or thier application, will not require further expenditures by the Company.

Consistent with other businesses, the Company faces a certain degree of risk arising from sales of products on credit terms to customers. Due to the diversity of its customer base, the Company is not exposed in a material manner to credit risk from any one customer. The Company attempts to mitigate its credit risk through the establishment of credit limits and terms of sales with its customers. Credit limits are reviewed and monitored regularly.

The Company uses various commodity raw materials and energy products in conjunction with its manufacturing processes. Generally, the Company acquires such components at market prices and does not use financial instruments to hedge commodity prices. As a result, the Company is exposed to market risk related to changes in commodity prices related to these components.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its results of operations and financial condition are based upon its consolidated financial statements that have been prepared in accordance with generally accepted accounting principals in Canada. A reconciliation of generally accepted accounting principals in Canada to those of the United States has been provided in note 18 to the Consolidated Financial Statements. The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Estimates and assumptions are evaluated on an ongoing basis and are based on historical and other factors believed to be reasonable under the circumstances. The results of these estimates may form the basis of the carrying value of certain assets and liabilities and may not be readily apparent from other sources. Actual results, under conditions and circumstances different from those assumed, may differ from estimates.

The Company believes the following accounting policies are critical to its business operations and the understanding of results of operations and affect the more significant judgments and estimates used in the preparation of its consolidated financial statements:

Allowance for Doubtful Accounts – The Company maintains accounts receivable allowances for estimated losses resulting from the inability of its customers to make payments. Additional allowances may be required if the financial condition of the Company's customers deteriorates.

Future Income taxes – The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying value and tax basis of the assets and liabilities. Consistent with this policy, the Company recognizes future tax assets, net of a valuation allowance. Based on current projections of future taxable income over the periods in which the future income tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of the future tax assets, net of existing valuation allowance. However changes in future profitability of the Company may impact the realization of these future tax assets.

Recently Issued Accounting Pronouncements

During 2002, the Canadian Institute of Chartered Accountants issued several new accounting pronouncements, the impact of which the Company is currently assessing (see notes 1(o) and 18(f) to the Consolidated Financial Statements).

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

Management recognizes its responsibility for conducting the Company's affairs in the best interests of all its shareholders. The consolidated financial statements and related information in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which involve the use of judgement and estimates in applying the accounting principles selected. Other financial information in the annual report is consistent with that in the consolidated financial statements.

The Company maintains systems of internal controls, which are designed to provide reasonable assurance that accounting records are reliable and to safeguard the Company's assets. The Company's independent auditors, KPMG LLP, Chartered Accountants, have audited and reported on the Company's consolidated financial statements. Their opinion is based upon audits conducted by them in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards to obtain reasonable assurance that the consolidated financial statements are free of material misstatement.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board. The Committee meets periodically with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged and to recommend approval of the consolidated financial statements to the Board.

Henry Schnurbach
CHIEF EXECUTIVE OFFICER

Kevin Day
CHIEF FINANCIAL OFFICER

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Polyair Inter Pack Inc. as at October 31, 2003 and 2002 and the consolidated statements of income and retained earnings and cash flows for each of the years in the three-year period ended October 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2003 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

CHARTERED ACCOUNTANTS
TORONTO, CANADA
JANUARY 9, 2004

CONSOLIDATED BALANCE SHEETS

October 31, 2003 and 2002 (IN THOUSANDS OF U.S. DOLLARS)	2003 $	2002 $
Current assets:		
Cash and cash equivalents	**888**	2,998
Accounts receivable, net of allowance for doubtful accounts	**24,006**	15,840
Due from joint venture *(note 17)*	**826**	315
Income taxes receivable	**111**	252
Inventory *(note 4)*	**30,022**	10,825
Prepaid expenses and other	**2,175**	605
Future income tax assets *(note 11)*	**1,492**	885
	59,520	31,720
Capital assets, net *(note 5)*	**37,790**	33,425
Future income tax assets *(note 11)*	**1,369**	519
Intangible and other assets, net *(note 6)*	**1,929**	1,747
	100,608	67,411
Current liabilities:		
Bank indebtedness *(note 7)*	**13,130**	–
Accounts payable	**14,195**	9,192
Accrued liabilities	**11,598**	6,106
Income taxes payable	**2,009**	2,942
Future income tax liabilities *(note 11)*	**62**	–
Current portion of long-term debt *(note 8)*	**4,191**	3,064
	45,185	21,304
Long-term debt *(note 8)*	**15,348**	18,846
Other long-term liabilities *(note 2)*	**1,324**	–
Convertible note *(note 3)*	**1,229**	–
Future income tax liabilities *(note 11)*	**3,633**	2,847
Shareholders' equity:		
Convertible note *(note 3)*	**3,938**	–
Capital stock *(note 9)*	**9,938**	10,021
Retained earnings	**18,869**	14,614
Cumulative translation account	**1,144**	(221)
	33,889	24,414
Commitments and contingencies *(notes 12 and 14)*		
	100,608	67,411

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Henry Schnurbach
DIRECTOR

Daniel S. Tamkin
DIRECTOR

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended October 31, 2003, 2002 and 2001 (IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS)	2003 $	2002 $	2001 $
Sales	**142,776**	119,510	111,624
Cost of sales	**110,032**	91,158	88,163
Gross profit	**32,744**	28,352	23,461
Expenses:			
Selling	**13,743**	10,888	10,226
General and administrative	**9,691**	8,190	7,564
	23,434	19,078	17,790
Operating profit	**9,310**	9,274	5,671
Interest expense, net *(note 8)*	**1,601**	1,717	2,599
Income before minority interest	**7,709**	7,557	3,072
Minority interest	**6**	13	3
Income before income taxes	**7,715**	7,570	3,075
Income taxes (recovery) *(note 11):*			
Current	**2,356**	3,631	705
Future	**629**	(510)	705
	2,985	3,121	1,410
Net income	**4,730**	4,449	1,665
Retained earnings, beginning of year	**14,614**	10,191	8,780
Premium on common shares purchased for cancellation *(note 9)*	**(372)**	(26)	(254)
Convertible note charge *(note 3)*	**(103)**	–	–
Retained earnings, end of year	**18,869**	14,614	10,191
Income per share *(note 10):*			
Basic	**0.76**	0.72	0.27
Diluted	**0.72**	0.71	0.27
Weighted average number of shares outstanding *(note 10):*			
Basic	**6,113,022**	6,206,311	6,232,052
Diluted	**6,453,675**	6,288,459	6,232,052

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended October 31, 2003, 2002 and 2001 (IN THOUSANDS OF U.S. DOLLARS)	2003 $	2002 $	2001 $
Cash provided by (used in):			
Operating activities:			
Net income	**4,730**	4,449	1,665
Items which do not involve cash:			
Depreciation and amortization	**5,925**	5,995	5,534
Future income taxes	**629**	(510)	705
Minority interest	**(6)**	(13)	(3)
	11,278	9,921	7,901
Change in non-cash operating working capital:			
Accounts receivable	**25,647**	354	577
Inventory	**(2,857)**	2,955	(708)
Prepaid expenses and other	**(1,086)**	168	(167)
Accounts payable and accrued liabilities	**(708)**	289	(697)
Income taxes payable	**(1,154)**	3,140	(196)
	31,120	16,827	6,710
Financing activities:			
Increase in long-term debt	**585**	18,373	–
Decrease in long-term debt	**(3,285)**	(17,346)	(2,744)
Increase (decrease) in bank indebtedness	**12,550**	(9,710)	2,624
Common shares repurchased	**(559)**	(63)	(697)
Stock options exercised	**104**	125	–
	9,395	(8,621)	(817)
Investing activities:			
Purchase and deposits on building and equipment	**(8,946)**	(5,218)	(5,296)
Acquisitions *(note 2)*	**(32,122)**	–	–
Due from joint venture	**(411)**	(313)	–
Other	**(272)**	(474)	(418)
	(41,751)	(6,005)	(5,714)
Effect of foreign currency translation on cash balances	**(874)**	(100)	(384)
Increase (decrease) in cash and cash equivalents	**(2,110)**	2,101	(205)
Cash and cash equivalents, beginning of year	**2,998**	897	1,102
Cash and cash equivalents, end of year	**888**	2,998	897
Supplemental cash flow information:			
Interest paid	**1,428**	1,480	2,151
Income taxes paid, net of refunds	**4,275**	618	1,070
Non-cash transactions:			
Non-cash consideration paid on acquisition *(note 2)*	**6,814**	–	–

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABULAR AMOUNTS IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS)

YEARS ENDED OCTOBER 31, 2003, 2002 AND 2001

Polyair Inter Pack Inc. (the "Company") manufactures and markets packaging and pool products to distributors located in North America and Europe. The majority of the Company's sales are to customers in the United States from operations in the United States. The Company was incorporated under the Ontario Business Corporations Act.

The accompanying consolidated financial statements include the accounts of the Company's wholly owned subsidiaries, Cantar/Polyair Inc., Cantar/Polyair Corporation, Cantar/Polyair Canada Limited, Performa Corp., C/P International Corp. Inc., Atlantic Pool Products Corp., Atlantic Pools Products Ltd., Faircove Investments Inc., Mabex Universal Corporation and P.S.C. Moulding Corporation (76% owned). The Company accounts for its interest in joint ventures, PXL Cross Linked Foam Corporation ("PXL") (50.1% owned) and Foam in Place Company Limited ("FIPCO") (50.1% owned) (note 17), using the proportionate consolidation method from the date of acquisition. All significant intercompany accounts and transactions have been eliminated on consolidation.

1. [illegible] accounting policies

The consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada and, except as described in note 18, conform in all material respects with accounting principles generally accepted in the United States and practices prescribed by the United States Securities and Exchange Commission.

(a) Reporting currency:

The Company's reporting currency is the U.S. dollar. The U.S. dollar is the functional currency of the Company's United States operations. The Canadian dollar is the functional currency of the Company's Canadian operations, which are translated into U.S. dollars using the current rate method. Under this method, all assets and liabilities are translated at the year-end rate of exchange and all revenue and expense items are translated at the average rate of exchange for the year. Exchange rate differences arising on translation are deferred as a separate component of shareholders' equity.

(b) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. The most significant estimates are related to the valuation of accounts receivable and future income taxes. Actual results could differ from those estimates.

(c) Revenue recognition:

Revenue from product sales is recognized when product is received by the customer, the customer takes ownership and assumes risk of loss, and collection of the relevant receivable is probable, after making appropriate provision for sales returns and credit memos issued.

(d) Cash and cash equivalents:

The Company considers all highly liquid financial instruments with maturity of three months or less at acquisition to be cash equivalents.

(e) Inventory:

Raw materials are stated at the lower of cost and replacement cost. Finished goods are stated at the lower of cost, determined by the first-in, first-out method, and net realizable value.

(f) Capital assets:

Capital assets are recorded at cost, including, for major projects, interest capitalized during the construction period. Depreciation is recorded once assets are in use and is calculated using the straight-line method at annual rates designed to amortize the cost over their estimated useful lives as follows:

Building	$2\frac{1}{2}$%
Machinery and equipment	10%–50%
Furniture and fixtures	20%
Computer equipment	33%
Leasehold improvements	Over term of lease plus first renewal term

Maintenance and repairs are charged to operations as incurred; significant improvements are capitalized.

(g) Patent, trademarks and license agreement:
Patent, trademarks and license agreement are stated at cost, net of accumulated amortization. Amortization is provided over the useful lives (11 years) of the intangible assets using the straight-line method.

(h) Deferred financing costs:
Deferred financing costs are amortized over the term of the related financing.

(i) Goodwill:
Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.

Subsequent to October 2001, goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of the goodwill (allocated to reporting units) exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statements of income and retained earnings before extraordinary items and discontinued operations.

(j) Foreign currency translation:
Monetary items denominated in foreign currencies are translated into the functional currency of the respective operations at exchange rates in effect at the balance sheet dates and non-monetary items are translated at rates of exchange in effect when the assets are acquired or obligations incurred. Revenue and expenses in foreign currencies are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

(k) Financial instruments:
The Company, in the normal course of business, periodically enters into forward exchange contracts, swaps and options to manage foreign currency exposures. Gains and losses on these financial instruments are recognized in the same year as the underlying exposure being hedged.

(l) Income taxes:
The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method of accounting for income taxes, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying value and tax basis of assets and liabilities.

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that the rate changes.

(m) Stock-based compensation plan:
The Company has a stock-based compensation plan, which is described in note 9.

Effective November 1, 2002, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants ("CICA") with respect to the accounting for stock-based compensation and other stock-based payments, using the fair value-based method. The new recommendations were applied to all stock-based payments granted on or after November 1, 2002. The impact of the adoption was not material to the Company's financial position.

(n) Income per share:
Basic income per share is computed using the weighted average number of common shares outstanding during the year. Diluted income per share is computed using the weighted average number of common and potential common shares outstanding during the year. Potential common shares consist of the incremental number of common shares issuable upon the exercise of stock options using the treasury stock method or the impact of the conversion of convertible note.

(o) Recently issued accounting pronouncements:

(i) Foreign currency translation and hedging relationships:
The CICA's Handbook Section 1650 has been amended to eliminate the deferral and amortization of foreign currency translation gains and losses on long-lived monetary items, effective for the company's fiscal year beginning on November 1, 2002 with retroactive restatement of prior periods. In addition, the CICA issued Accounting Guideline AcG-13 which establishes criteria for hedge accounting effective for the Company's 2004 fiscal year. The Company is currently assessing the impact of this new accounting pronouncement.

(ii) Impairment or disposal of long-lived assets:
In December 2002, the CICA issued Handbook Section 3063, "Impairment or Disposal of Long-Lived Assets" and revised Section 3475, "Disposal of Long-Lived Assets and Discontinued Operations". These sections establish standards for recognizing, measuring and disclosing impairment for long-lived assets held-for-use, and for measuring and separately classifying assets available-for-sale.

Previously, long-lived assets were written down to net recoverable value if the undiscounted future cash flows were less than net book value. Under the new standard, assets must be classified as either held-for-use or available-for-sale. Impairment losses for assets held-for-use are measured based on fair value which is measured by discounted cash flows. Available-for-sale assets are measured based on expected proceeds less direct costs to sell. The requirements are effective for disposal activities initiated by an enterprise's commitment to a plan on or after May 1, 2003. The adoption of this accounting pronouncement had no material impact on the Company.

(iii) Restructuring charges:

In March 2003, the CICA's Emerging Issues Committee issued EIC-134, "Accounting for Severance and Termination Benefits", and EIC-135, "Accounting for Costs Associated with Exit and Disposal Activities", which establish standards for recognizing, measuring and disclosing costs relating to an exit or disposal activity.

These EICs allow recognition of a liability for an exit or disposal activity only when the costs are incurred and can be measured at fair value. Previously, a commitment to an exit or disposal plan was sufficient to record the majority of costs. This Abstract was effective for termination benefits and exit or disposal activities initiated after March 31, 2003.

(iv) Asset retirement obligations:

In March 2003, the CICA issued Section 3110, "Accounting for Asset Retirement Obligations". Section 3110 requires companies to record the fair value of an asset retirement obligation as a liability in the period in which they incur a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. Companies are also required to record a corresponding asset that is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of the period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Companies are required to adopt Section 3110 for fiscal years beginning on January 1, 2004. The Company has not yet determined the impact of implementation of these guidelines on its consolidated financial statements.

(v) Variable interest entities:

In June 2003, the Account Standards Board ("AcSB") issued the new CICA AcG-15, "Consolidated of Variable Interest Entities". This Guideline addresses the consolidation of variable interest entities, which are entities that have insufficient equity or their equity investors lack one or more of the specified essential characteristics of a controlling financial interest. AcG-15 also provides guidance for determining who should consolidate the variable interest entity. This Guideline is effective for the first interim and annual period beginning on or after November 1, 2004, with earlier application encouraged. The adoption of this Guideline will not have an impact on its consolidated financial statements.

(vi) Generally accepted accounting principles:

In July 2003, the AcSB issued two new CICA Handbook Sections, Section 1100, "Generally Accepted Accounting Principles", and Section 1400, "General Standards of Financial Statement Presentation", which revise and replace Section 1500. Simultaneously, amendments were made to Section 1000, "Financial Statement Concepts". The combined impact of these changes is to describe what constitutes generally accepted accounting principles ("GAAP") in Canada and to provide guidance on sources to consult when a matter is not dealt with explicitly in the primary sources of GAAP. The changes also clarify what constitutes "fair presentation in accordance with GAAP" and eliminate the ability for an entity to depart from a CICA Handbook Recommendation when following that Recommendation would result in misleading financial statements. Section 1100, Section 1400 and the amendments to Section 1000 must be applied for fiscal years beginning on or after October 1, 2003, with early adoption encouraged. The Company believes that the implementation of those pronouncements will not have a material impact on its consolidated financial statements.

(vii) Employee future benefits:

In October 2003, the AcSB approved additional disclosure requirements amending Section 3461, "Employee Future Benefits". The amendments provide clarification on accounting policy and other disclosures that should be made with respect to employee future benefits. The new annual disclosures are effective for years ending on or after June 30, 2004, and new interim disclosures are effective for periods ending on or after that date. The adoption of the guideline will not have an impact on its consolidated financial statements.

In May 2003, the Company acquired certain swimming pool and pool equipment assets from Jacuzzi Inc. and Jacuzzi Leisure Products Inc. at a purchase cost of $40.2 million. The results of operations have been consolidated from the date of acquisition. The acquisition is accounted for by the purchase method. The purchase cost was allocated to the fair value of the net assets acquired as follows:

The fair value of assets acquired was:

	$
Net working capital	41,506
Other long-term liabilities	(1,324)
Net assets acquired	40,182
Consideration:	
Cash	32,122
Convertible note payable *(note 3)*	5,000
Acquisition accruals	3,246
Due from vendor	(186)
	40,182

As part of the acquisition noted above (note 2), the Company issued a $5,000,000 unsecured convertible note, bearing interest of 6% per annum, maturing March 31, 2009.

This note is convertible by the holder, at any time after March 31, 2004 (or upon commencement of a take over bid) into 598,802 common shares at a price of $8.35.

The Company may prepay the note, at any time after March 31, 2006 in cash or by issuance of 598,802 Series A preference shares.

As the Company is required to make interest payments in cash while the note is outstanding, the discounted present value of future interest payments to maturity is classified as a liability on the balance sheet. As the Company has the unrestricted ability to satisfy payment of the principal amount of the note with equity, the discounted present value of the note at maturity has been classified as equity, including $462,000 of the proceeds allocated to the value of the note holders' conversion option. An amount representing accretion of the equity carrying value to the face amount of the note over its term to maturity, on an after tax basis, is classified as a distribution of equity and as a prior deduction in calculating earnings per common share.

	2003	2002
	$	$
Raw materials	**18,247**	5,492
Finished goods	**11,775**	5,333
	30,022	10,825

2003	Cost	Accumulated depreciation	Net book value
	$	$	$
Land	132	–	132
Building	8,207	1,199	7,008
Machinery and equipment	46,468	21,885	24,583
Furniture and fixtures	833	735	98
Computer equipment	2,499	1,653	846
Leasehold improvements	3,071	1,863	1,208
Construction in progress	3,915	–	3,915
	65,125	27,335	37,790

2002	Cost	Accumulated depreciation	Net book value
	$	$	$
Land	132	–	132
Building	7,914	993	6,921
Machinery and equipment	40,123	16,331	23,792
Furniture and fixtures	713	605	108
Computer equipment	1,823	1,198	625
Leasehold improvements	2,382	1,522	860
Construction in progress	987	–	987
	54,074	20,649	33,425

6. Intangible and other assets:

2003	Cost	Accumulated amortization	Net book value
	$	$	$
Patent, trademarks and licence agreement	573	340	233
Deferred financing costs	1,526	642	884
Goodwill	1,084	272	812
	3,183	1,254	1,929

2002	Cost	Accumulated amortization	Net book value
	$	$	$
Patent, trademarks and licence agreement	408	187	221
Deferred financing costs	1,247	543	704
Goodwill	1,063	241	822
	2,718	971	1,747

7. Bank indebtedness:

During 2002, the Company negotiated a replacement borrowing facility with new lenders. This facility was subsequently amended on May 8, 2003 to provide a flexible operating line of credit to meet the seasonal working capital requirements. This new facility provides the Company with a maximum of $60.0 million for working capital with availability determined monthly based on eligible accounts receivable and inventory. Based on October 31, 2003 balances, the available line of credit is $25.8 million, up to a maximum of $35.0 million, of which the Company has used $5.7 million to support a letter of credit and has drawn $13.1 million for operating cash. The unused available working capital line of credit is approximately $7.0 million. The Company has term loans of $11.7 million outstanding (2002 – $13.0 million) for capital expenditures, acquisitions and new business opportunities. The line of credit is subject to an unused credit facility fee of 0.375% per annum on the undrawn balance.

Certain of the loans disclosed in note 8 are supported by the Company's bank letter of credit. The line of credit and the loan agreements are secured by substantially all the assets of the Company and contain various restrictive covenants relating to, among other things, minimum levels of tangible net worth and net income, limitations of indebtedness and building and equipment purchases, and various other items.

	2003	2002
	$	$
$22,000,000 credit facility, interest payable at U.S. prime plus 0.5% or LIBOR plus 2.75%	**6,912**	–
$13,000,000 in Canadian dollar equivalent credit facility, interest payable at Canadian prime plus 0.5% or LIBOR plus 2.75%	**6,218**	–
	13,130	–

	2003	2002
	$	$
Debenture loan, bearing interest at 6.5% per annum, maturing April 1, 2005	**3,000**	3,500
Debenture loan, repayable by quarterly sinking fund installments. The rate of interest is floating, based on the rates prevalent for the highest rated short-term, U.S. federally tax-exempt obligations, maturing June 1, 2016	**2,703**	2,792
Loan, repayable by monthly blended principal and interest installments of $20,527, bearing interest at 3%, maturing January 2006	**352**	762
Loan, repayable by monthly blended principal and interest installments of $14,075, bearing interest at 3%, maturing March 2007	**546**	696
Loan, repayable by monthly blended principal and interest installments of $12,903, bearing interest at 3%, maturing June 2007	**535**	671
Debenture loan, repayable by quarterly sinking fund installments. The rate of interest is floating, based on the rates prevalent for the highest rated short-term, U.S. federally tax-exempt obligations, maturing September 2003	**–**	143
Note payable, repayable in quarterly blended principal and interest installments of $16,942, bearing interest at 12%, maturing October 31, 2005	**132**	175
Term loan, repayable by monthly principal payments of $54,762 plus interest at prime plus 0.5%, maturing June 2009	**1,724**	2,107
Term loan, repayable by monthly principal payments of $46,667 plus interest at prime plus 0.5%, maturing June 2012	**4,852**	5,180
Canadian dollar-denominated term loan of Cdn. $2,222,000, repayable by monthly principal installments of $21,400 (Cdn. $32,679) plus interest at prime plus 1%, maturing November 1, 2005	**1,685**	1,676
Term loan, repayable by monthly principal payments of $57,959 plus interest at 5.07%, maturing August 2007 (Wells Fargo)	**2,367**	2,931
Term loan, repayable by monthly principal payments of $24,075 plus interest at 4.97%, maturing September 2007 (Wells Fargo)	**1,023**	1,277
Term loan (PXL) of Cdn. $818,000, repayable by monthly principal payments and interest of (Cdn. $33,932), bearing interest at 7.25%, maturing July 2008	**620**	–
	19,539	21,910
Less current portion	**4,191**	3,064
	15,348	18,846

Long-term debt (continued)

	2003	2002	2001
	$	$	$
Interest expense on long-term debt	**1,088**	1,052	1,518
Other interest expense	**557**	677	1,091
Interest income	**(44)**	(12)	(10)
	1,601	1,717	2,599

Aggregate maturities on long-term debt are as follows:

	$
2004	4,191
2005	5,114
2006	2,804
2007	2,080
2008	1,143
Thereafter	4,207
	19,539

9. Capital stock

Authorized:

598,802 Series A preference shares, non-voting, non-participating, cumulative, redeemable and convertible into an equivalent number of common shares

Unlimited common shares

Issued:	2003		2002	
	Shares	**Amount**	Shares	Amount
		$		$
Outstanding, beginning of year	**6,223,300**	**10,021**	6,215,300	9,933
Shares repurchased for cancellation	**(120,000)**	**(187)**	(25,000)	(37)
Options exercised during year	**23,200**	**104**	33,000	125
Outstanding, end of year	**6,126,500**	**9,938**	6,223,300	10,021

During the year, the Company repurchased for cancellation 120,000 (2002 – 25,000) common shares pursuant to a Normal Course Issuer bid at an average cost of Cdn. $8.29 (2002 – Cdn. $4.04) per share. The excess of the purchase cost over the book value of the shares was charged to retained earnings.

Stock options:

Options to purchase common shares of the Company vest within 5 to 7 years from the date of grant.

All options are set to expire 7 to 10 years from the date of grant. The Company has authorized options to purchase 1,141,000 since the inception of the plan and 868,750 remain outstanding and exercisable (2002 – 837,650) at prices ranging from $6.00 to $13.44 per share. At year end, the weighted average remaining contractual life of the outstanding options are 3.77 years (2002 – 0.7 years; 2001 – 1.7 years) and 769,264 (2002 – 658,143; 2001 – 707,443) options were exercisable at $6.00.

	Options			Average exercise price (Cdn. $)		
	2003	2002	2001	**2003**	2002	2001
Outstanding, beginning of year	**837,650**	871,200	871,900	**6.00**	6.00	6.00
Granted	**55,700**	16,800	18,900	**11.28**	6.34	6.00
Exercised	**(23,200)**	(33,000)	–	**(6.00)**	(6.00)	(6.00)
Forfeited	**(1,400)**	(17,350)	(19,600)	**(6.00)**	(6.00)	(6.00)
Outstanding, end of year	**868,750**	837,650	871,200	**6.34**	6.00	6.00

The following table summarizes information about stock options outstanding at October 31, 2003:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$			$		$
6.00	806,050	3.33	6.00	768,264	6.00
6.82	7,000	8.42	6.82	1,000	6.82
9.60	2,800	9.50	9.60	–	9.60
10.00	31,500	9.40	10.00	–	10.00
12.60	1,400	9.80	12.60	–	12.60
13.44	20,000	9.75	13.44	–	13.44

The following table sets forth the calculation of basic and diluted income per share:

	2003	2002	2001
	$	$	$
Numerator:			
Net income	**4,730**	4,449	1,665
Convertible note charge *(note 3)*	**(103)**	–	–
Income available to common shareholders	**4,627**	4,449	1,665
Denominator:			
Weighted average number of shares outstanding	**6,113,022**	6,206,311	6,232,052
Effect of dilutive securities:			
Employee stock options	**340,653**	82,148	–
Weighted average shares – diluted	**6,453,675**	6,288,459	6,232,052
Income per share:			
Basic	**0.76**	0.72	0.27
Diluted	**0.72**	0.71	0.27

As at October 31, 2003, the convertible note had not yet been converted to common shares. The effect of the conversion on income per share, based on weighted average number of shares outstanding of 7,052,477, would result in a decrease of $0.06 per share.

	2003	2002	2001
	$	$	$
Current income taxes (recovery):			
U.S. federal	**1,330**	2,795	725
U.S. state	**243**	707	129
Canada	**783**	129	(149)
	2,356	3,631	705
Future income taxes (recovery):			
U.S. federal	**227**	(225)	331
U.S. state	**43**	(56)	70
Canada	**359**	(229)	304
	629	(510)	705
	2,985	3,121	1,410

The Company's income tax expense differs from the amount that would have resulted by applying Canadian statutory tax rate of approximately 36.6% (2002 – 39.0%; 2001 – 42.4%) to income as described below:

	2003	2002	2001
	$	$	$
Income tax expense calculated using statutory tax rates	**2,824**	2,952	1,303
Non-deductible expenses	**102**	106	113
Manufacturing and processing profits deduction (increase)	**(90)**	5	4
Foreign earnings subject to different tax rates	**–**	25	(115)
Large Corporations Tax	**77**	33	25
Reduction (increase) in future tax rates	**(1)**	18	–
Future tax amounts previously unrecognized	**–**	–	43
Reduction in valuation allowance	**–**	–	(36)
Other	**73**	(18)	73
	2,985	3,121	1,410

A summary of the principal components of future tax assets and liabilities calculated in accordance with Canadian accounting principles at October 31 is as follows:

	2003	2002
	$	$
Current future tax liabilities:		
Investment tax credits	**(62)**	–
Non-current future tax liabilities:		
Capital assets	**(3,337)**	(2,847)
Current portion of long-term debt	**(142)**	–
Intangible and other assets	**(154)**	–
	(3,633)	(2,847)
	(3,695)	(2,847)
Current future tax assets:		
Donations	**11**	28
Inventory	**215**	215
Accounts receivable	**–**	13
Corporate minimum tax credit	**–**	18
Accrued liabilities	**1,266**	611
	1,492	885
Non-current future tax assets:		
Intangible and other assets	**–**	1
Non-capital loss carryforwards	**455**	473
Capital loss carryforwards	**20**	15
Corporate minimum tax credit	**148**	114
Other long-term liabilities	**636**	–
Long-term debt	**211**	–
	1,470	603
Valuation allowance	**(101)**	(84)
	1,369	519
	2,861	1,404
Net future tax liabilities	**(834)**	(1,443)

The Company has recorded future tax assets of $2,861,000 after a valuation allowance of $101,000 is taken into consideration. In order to fully realize the future income tax assets, the Company need to generate future taxable income of approximately $7,900,000. Based on projections of future taxable income over the periods in which the future income tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of the future tax assets, net of the existing valuation allowance.

The Company has non-capital loss carryforwards of $259,000 which will expire beginning in 2006. As well, the Company has capital loss carry-forwards of approximately $49,000 for which no future tax asset has been recognized. One of the Company's Canadian subsidiaries has non-capital loss carryforwards of $209,000 which will expire beginning in 2009. Another of the Company's Canadian subsidiaries has Ontario corporate minimum tax credits of approximately $83,000 for which no future tax asset has been recognized.

One of the Company's U.S. subsidiaries has non-capital loss carryforwards of $959,000 of which approximately $106,000 expires in each year from 2004 to 2012.

The Company leases office and warehouse facilities under operating leases. Rental expenses for all operating leases for the year totalled $2,334,670 (2002 – $2,311,131).

Future minimum rental payments to be made for all non-cancellable operating leases are as follows:

	$
2004	2,955
2005	2,958
2006	2,156
2007	1,350
2008	1,124
Thereafter	5,914
	16,457

The Company is party to certain agreements and transactions in the normal course of business with shareholders and companies related by common ownership. Significant related party transactions not disclosed elsewhere include rent of $247,217 (2002 – $207,559), which is recorded at the amount agreed to by the parties. Professional consulting fees of $210,000 (2002 – $163,000) were paid or accrued to a company in which one of the directors has an equity interest.

The Company is involved in various legal proceedings normally incident to its business which, in the opinion of management, will not have a material impact upon the financial position of the Company.

The fair values of the Company's financial assets and liabilities approximate their carrying values, based principally on short terms to maturities and interest rates offered to the Company for debt with similar terms and conditions.

The Company periodically uses derivative financial instruments, including swaps, forward contracts and options to manage its foreign currency exposures. At October 31, 2003, the Company had no outstanding commitments.

The Company manufactures and markets packaging and pool products. The Company operates in the United States and Canada.

By geographic region:

	2003	2002	2001
	$	$	$
Sales:			
United States	**112,925**	103,340	96,410
Canada	**27,077**	16,170	15,214
Europe	**2,774**	–	–
	142,776	119,510	111,624
Capital assets and goodwill:			
United States	**24,426**	24,884	25,806
Canada	**12,441**	7,761	7,044
Corporate	**1,735**	1,602	1,968
	38,602	34,247	34,818

By operating segment:

	2003	2002	2001
	$	$	$
Sales:			
Packaging products	**89,540**	85,324	80,354
Pool products	**53,236**	34,186	31,270
	142,776	119,510	111,624
Depreciation and amortization:			
Packaging products	**4,292**	4,296	4,226
Pool products	**868**	778	579
Corporate	**765**	921	729
	5,925	5,995	5,534
Operating profit:			
Packaging products	**10,684**	10,335	7,174
Pool products	**3,701**	3,758	1,707
Corporate	**(5,075)**	(4,819)	(3,210)
	9,310	9,274	5,671
Total assets:			
Packaging products	**53,085**	45,191	45,081
Pool products	**39,810**	15,056	18,414
Corporate	**7,713**	7,164	5,118
	100,608	67,411	68,613
Capital expenditures:			
Packaging products	**6,947**	4,385	4,212
Pool products	**1,447**	460	660
Corporate	**552**	373	424
	8,946	5,218	5,296

11 - Interest in joint ventures:

In August 2002, the Company entered into an agreement to establish a joint venture. These consolidated financial statements reflect the Company's proportionate interest in the joint venture's assets and liabilities. During fiscal 2003, the joint venture began producing and selling inventory. In general, liabilities of joint ventures are secured by pledges of related assets. At time, the joint venture participants may further support these obligations should the realization from joint venture assets not be sufficient. As a participant in the venture, the Company may be liable for other participants' share of liabilities should they not be able to satisfy them, as well as its own share.

The following amounts included in the consolidated financial statements represent the Company's proportionate interest in the joint venture at October 31, 2003:

	$
Due from joint venture	826
Net working capital	(107)
Capital and other assets	1,456
Current portion of long-term debt	(113)
Long-term debt	(507)
Net assets	1,555

In September 2003, the Company entered into an agreement to establish another joint venture for the development, production and marketing of packaging systems. As at October 31, 2003, no significant transactions have occurred.

[illegible] in Canada and the United States

The consolidated financial statements have been prepared in accordance with GAAP in Canada, which differ in certain material respects from the principles and practices that the Company would have followed had its consolidated financial statements been prepared in accordance with accounting principles and practices generally accepted in the United States.

The effect of these principal differences on the Company's consolidated financial statements are quantified below and described in the accompanying notes.

Balance sheet:

	2003	2002
	$	$
Current assets	**59,520**	31,720
Long-term assets, net	**41,088**	35,691
	100,608	67,411
Current liabilities (a)	**45,251**	21,304
Long-term obligations and other (a)	**25,472**	21,693
Equity (a)	**29,885**	24,414

Statement of income and comprehensive income:

	2003	2002	2001
	$	$	$
Net income – Canadian GAAP	**4,730**	4,449	1,665
Interest expense on convertible note (a)	**(110)**	–	–
Related tax impact	**44**	–	–
Net income – U.S. GAAP	**4,664**	4,449	1,665
Other comprehensive gain:			
Foreign currency translation adjustments (b)	**1,335**	78	(173)
Comprehensive income – U.S. GAAP	**5,999**	4,527	1,492

Shareholders' equity:

	2003	2002
	$	$
Shareholders' equity based on Canadian GAAP	**33,889**	24,414
Impact on shareholders' equity of U.S. GAAP adjustments – convertible note (a)	**(3,938)**	–
Interest expense on convertible note (a)	**(66)**	–
Shareholders' equity based on U.S. GAAP	**29,885**	24,414

(a) Convertible note:
Under Canadian GAAP, the Company recorded a portion of the convertible note as an equity instrument and recorded accretion charges to retained earnings (note 3) with the related interest charges. Under U.S. GAAP, the full amount of convertible debt should be recorded as a long-term liability and amortization of debt issue costs recorded to interest expense. As a result, interest expense, net of tax, would increase by $66,000 for the year ended October 31, 2003.

(b) Comprehensive income:
In applying SFAS No. 130, "Reporting Comprehensive Income," comprehensive income would have been arrived at by adjusting net income for the change in foreign currency translation amounts during the year.

(c) Stock-based compensation plans:

United States accounting principles allow, but do not require companies to record compensation cost for stock option plans at fair value. The Company has chosen to continue to account for stock options issued prior to November 1, 2002 using the intrinsic value method as permitted under United States accounting principles. The United States pronouncement does, however, require the disclosure of pro forma income and income per share information as if the Company had accounted for its employee stock options issued prior to November 1, 2002 under the fair value method. Accordingly, the fair value of these options has been estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions:

	Assumptions				
	Expected volatility	Risk-free interest rate	Weighted average fair value	Expected life	Vesting period
			(Cdn. $ per share)		
Options granted:					
2003	80%	0.90%	9.17	10	5
2002	80%	1.70%	3.80	7	7
2001	80%	2.25%	2.70	7	7

	2003	2002	2001
	$	$	$
Net income – U.S. GAAP	**4,664**	4,449	1,665
Compensation cost	**184**	125	246
Pro forma net income – U.S. GAAP	**4,480**	4,324	1,419
Income per share – U.S. GAAP:			
Basic	**0.76**	0.72	0.27
Diluted	**0.72**	0.71	0.27
Pro forma income per share:			
Basic	**0.73**	0.70	0.23
Diluted	**0.69**	0.69	0.23

(d) Statement of cash flows:

Under United States GAAP, the subtotal within cash provided by operating activities would not be permitted in the consolidated statements of cash flows.

(e) Interest in joint venture:

Canadian GAAP requires the proportionate consolidation of interests in joint ventures. Proportionate consolidation is not permitted under U.S. GAAP and interests in joint ventures are accounted for on the equity basis. However, as allowed by the Securities and Exchange Commission ("SEC"), reclassification is not required in a SEC filing when specified criteria are met and information disclosed. These criteria have been met and the information is disclosed in note 17.

(f) New United States recent accounting pronouncements:

In January 2003, FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires variable interest entities, previously referred to as special-purpose entities or off-balance sheet structures, to be consolidated by a company if that company is subject to a majority of the risk of loss from the entity's activities or is entitled to receive a majority of the entity's returns or both. The consolidation provisions of FIN 46 are effective for new entities created after January 31, 2003, and are applicable to existing entities as of January 1, 2004. The Company does not expect to be impacted by this standard.

In April 2003, FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", which amends and clarifies the accounting and reporting for derivative instruments, including those embedded in other contracts and for hedging activities under SFAS No. 133. FAS No. 149 is effective as of July 1, 2003. The Company expects the adoption of this standard will not have a material impact on its financial position, results of operations or cash flows.

In May 2003, FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", which establishes standards for the classification and measurement of these financial instruments. SFAS No. 150 is effective as of the Company's third quarter beginning July 1, 2003. The Company's consolidated financial statements were not impacted by this standard.

In June 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations", was approved and requires that the fair value of an asset retirement obligation be recorded as a liability, at fair value, in the period in which the Company incurs the obligation. SFAS No. 143 is effective for the Company's fiscal year commencing November 1, 2003. The Company expects the adoption of this standard will have no material impact on its financial position, results of operations or cash flows.

INVESTOR & CORPORATE INFORMATION

Head Office
Polyair Inter Pack Inc.
258 Attwell Drive
Toronto, Ontario M9W 5B2
T (416) 740-2687
F (416) 740-2692
www.polyair.com
www.cantar.com

Subsidiaries
Cantar/Polyair Inc.
258 Attwell Drive
Toronto, Ontario M9W 5B2

Cantar/Polyair Corp.
1100 Performance Place
Youngstown, Ohio 44502

Cantar/Polyair Canada Limited
258 Attwell Drive
Toronto, Ontario M9W 5B2

Faircove Investments Inc.
258 Attwell Drive
Toronto, Ontario M9W 5B2

Performa Corp.
1100 Performance Place
Youngstown, Ohio 44502

C/P International Corp., Inc.
258 Attwell Drive
Toronto, Ontario M9W 5B2

Mabex Universal Corp.
258 Attwell Drive
Toronto, Ontario M9W 5B2

Atlantic Pool Products Corporation
258 Attwell Drive
Toronto, Ontario M9W 5B2

Atlantic Pool Products, Ltd.
258 Attwell Drive
Toronto, Ontario M9W 5B2

PSC Moulding Corporation
840 Division Street
Cobourg, Ontario K9A 5V2

Polyair Cross Linked Technologies Inc.
258 Attwell Drive
Toronto, Ontario M9W 5B2

PXL Cross Linked Foam Corporation
258 Attwell Drive
Toronto, Ontario M9W 5B2

North American Manufacturing and Sales Facilities

6035-B La Grange Boulevard
Atlanta, Georgia 30336
T (404) 344-4413
F (404) 629-6148

300 Spencer Mattingly Lane
Bardstown, Kentucky 40004
T (502) 348-7020
F (502) 348-5511

495 Meadow Lane
Carlstadt, New Jersey 07072
T (201) 804-1700
F (201) 804-1710

1600 Kelly Boulevard, #140
Carrollton, Texas 75006
T (972) 820-6484
F (972) 820-6899

808 East 113th Street
Chicago, Illinois 60628
T (773) 995-1818
F (773) 995-7725

1692 Jenks Drive
Corona, California 91720
T (909) 737-7125
F (909) 737-8021

1515 S. Bowman Road
Suite A
Little Rock, AR 72211
T (501) 255-0055
F (501) 255-0054

1100 Performance Place
Youngstown, Ohio 44502
T (330) 744-8812
F (330) 744-1228

840 Division Street
Cobourg, Ontario K9A 5V2
T (905) 373-0000 (PXL)
F (905) 373-0295

Annual Meeting
The annual meeting of shareholders will be held April 28, 2004, at 4:00 p.m. at Polyair Inter Pack's offices at 258 Attwell Drive, Toronto, Ontario. The meeting notice and proxy materials were mailed to shareholders with this report. Polyair urges all shareholders to vote their proxies so that they can participate in the decisions at the annual meeting.

840 Division Street
Cobourg, Ontario K9A 5V2
T (905) 831-0843 (PSC)
F (905) 831-2466

195 Rexdale Boulevard
Toronto, Ontario M9W 1P7
T (416) 740-7485
F (416) 740-4664

105 Iron Street
Suite UB
Toronto, Ontario M9W 5L9

330 Humberline Drive
Toronto, Ontario M9W 1R5
T (416) 798-2800
F (416) 798-2851

325 Humber College Boulevard
Toronto, Ontario M9W 7C3
T (416) 679-6600
F (416) 675-5604

9155 Boul. Langelier
St- Leonard, Quebec H1P 3K9
T (514) 323-2316
F (514) 323-2602

Auditors
KPMG LLP
Chartered Accountants
Toronto, Ontario

Transfer Agent and Registrar
Computershare Trust Co. of Canada
Toronto, Ontario

Computershare Trust Company, Inc.
Denver, Colorado

Corporate Counsel
Goldman, Spring, Kichler & Sanders LLP
Suite 700
40 Sheppard Avenue West
Toronto, Canada M2N 6KN

Investor Relations
Tom Caden or Dian Griesel
The Investor Relations Group, Inc.
11 Stone Street, 3rd Floor
New York, New York 10004
T (212) 825-3210
F (212) 825-3229

Wendy Smith
Shareholder Administrator
Polyair Inter Pack Inc.
T (416) 740-2687
F (416) 740-7356

Directors
Fred A. Litwin†
Chairman of the Board
President, Forum Financial Corporation
Toronto, Ontario

Henry Schnurbach
President and
Chief Executive Officer
Polyair Inter Pack Inc.
Toronto, Ontario

Alan Castle
President
Packaging Sales and Marketing
Cantar/Polyair Inc.
Toronto, Ontario

Daniel S. Tamkin^Δ
President
Camtx Corporation
New York, New York

Sol D. Nayman†Δ
President
S. D. Nayman Management Inc.
Toronto, Ontario

Sidney Greenberg†Δ
Vice-President
Astral Media
Toronto, Ontario

Officers of Polyair Inter Pack and Key Operating Subsidiaries

Henry Schnurbach
President and
Chief Executive Officer

Kevin Day
Chief Financial Officer

Daniel S. Tamkin
Secretary

Alan Castle
President
Packaging Sales and Marketing
Cantar/Polyair Corp.

Gary Crandall
President
Pool Sales and Marketing
Cantar/Polyair Corp.

Chris Bartlett
Vice-President
Engineering/Director of Operations
Cantar/Polyair Canada Limited

Jerry Vanderwerff
President
PSC Moulding Corporation

Δ Audit Committee
† Compensation Committee

POLYAIR

POLYAIR INTER PACK INC.
258 ATTWELL DRIVE, TORONTO, ONTARIO M9W 5B2
TEL 416.740.2687 FAX 416.740.2692
WEB SITES WWW.POLYAIR.COM WWW.CANTAR.COM